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November 2, 2004

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

RE: In the Matter of Developing a Unified Intercarrier Compensation Regime
CC Docket No. 01-92
Updated *Ex Parte* Presentation of Home Telephone Company, Inc. and PBT Telecom

Dear Ms. Dortch:

On December 12, 2003 and July 29-30, 2004, Home Telephone Company, Inc. and PBT Telecom made *ex parte* presentations concerning the above-referenced proceeding. Attached please find an update of these presentations in the form of comments.

Should there be any questions concerning this matter, kindly contact the undersigned.

Respectfully submitted,

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Enclosure

Before the

FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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| In the Matter of | ) | |
| Developing a Unified Intercarrier | ) | CC Docket No. 01-92 |
| Compensation Regime | ) | |

# Updated Ex Parte of

# Home Telephone Company, Inc. and PBT Telecom

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# Summary

Home Telephone Company, Inc. and PBT Telecom (collectively "the Companies") have previously made ex-parte presentations to the Commission related to intercarrier compensation issues. These presentations established unique concepts that merit consideration in any proceeding that anticipates a comprehensive restructure of intercarrier compensation mechanisms. The Companies are convinced that intercarrier compensation reform is directly linked to universal service. Indeed, many previous efforts addressing intercarrier compensation have resulted in the transfer of intercarrier compensation revenues into the federal universal service fund. This in turn, has placed increased pressure on the viability of the federal universal service fund.

The Companies offer a fairly simple solution to this conundrum. We propose the development of a connection based intercarrier compensation regime, augmented by a charge for access to the public network. This charge would be based on the receipt of a number from the North America Numbering Plan ("NANP") administrator which grants the ability to receive calls from the public network. This allows for interconnection between networks to be priced at an "averaged" rate per connection and recognizes that the assignment of a NANP number constitutes access to the public network. Carriers pay for the number of connections required to deliver traffic into another network and also pay for the number of subscriber connections they bring to the national network. The carriers, in turn, can pass through, to the end user, the fee associated with the subscriber's number, as it is the end user that is benefiting from the ubiquitous national public network. In effect, "access charges" are placed on the source of access into the public network - the number which allows for universal connectivity.

The Companies' plan eliminates minute-of-use ("MOU") interconnection charges, which cannot be sustained in the packet-switched network environment that is rapidly replacing the existing circuit-switched network. The elimination of the MOU regime allows for tremendous cost savings, as carriers will no longer need to capture and bill usage on a wholesale basis. In addition, by abandoning a MOU system, the problem of "phantom" traffic is eliminated. Finally, by establishing an "averaged" connection fee and developing a per number access charge, the stigma associated with providing retail service to high cost rural areas is removed, enabling rural subscribers to enjoy retail telecommunications offerings consistent with their urban counterparts. By allowing all high cost carriers willing to meet common accounting and pooling rules to participate in the high cost connection fund ("HCCF"), the plan ensures competitive neutrality while ensuring only high cost companies participate and recover only their actual cost. By utilizing the cost and separations procedures already in place, maintaining the functions of the National Exchange Carrier Association ("NECA") to administer the HCCF pool, and utilizing existing contamination rules associated with dedicated facilities to resolve jurisdictional issues associated with intrastate access rates, the plan can be implemented quickly, which is critical for the health of the rural network. The greatest benefit is that this can be accomplished for an assessment of approximately $1.00 per NANP number per month.

The time is right for a bold new approach to problems that exist with the current intercarrier compensation regime, an approach that builds upon processes that have worked successfully in the past but allows for new technologies that are beginning to show promise for the future.

## Introduction

Home Telephone Company, Inc. and PBT Telecom (hereinafter "Companies") hereby file the following as updated *ex parte* materials in the above captioned proceeding. On December 12, 2003 and July 29-30, 2004, the Companies made *ex parte* presentations to the offices of each Commissioner as well as to the Pricing Policy Division of the Wireline Competition Bureau.[1] In these presentations, the Companies offered comment on the Federal Communication Commission's ("FCC's" or "Commission's") ongoing process to develop a Unified Intercarrier Compensation Regime.

The Companies acknowledge that other parties filing *ex parte* materials in this proceeding possess many times the financial and manpower resources of the Companies. However, large resources do not directly translate into more original or creative ideas. In fact, as participants in many industry efforts to address this complicated issue, our experience is that just the opposite may be true. Sometimes the solutions of larger groups bear the pressure of multiple interests – thereby potentially clouding the best solution, which advances the public interest. The Companies believe their concepts offer a solution that is not weighed down by these collective pressures.

The Companies are concerned that, in the pressure to understand and resolve some of the most complicated and difficult problems to ever confront the telecommunications industry, some of the most basic, fundamental concepts upon which the ubiquitous telecommunications network was built are being overlooked. One must remember that our national network is, in reality, a

[1] By making this filing, the Companies request that the Commission recognize the concepts submitted via *ex parte* by the Companies and include the same in its upcoming Notice or Further Notice of Proposed Rule Making in the above captioned proceeding.

network of networks. Some of the networks function in areas that are costly to serve, some in areas that cost less to serve. Yet, it is the amalgamation of all networks that enables all subscribers in all areas of country to communicate with each other; this is the tie that binds our nation.

Recognition of this fact leads inexorably to the concept that each individual network contributes to the value of the whole. Benefit is derived across the entire national network when consumers in high cost areas are connected. Therefore, it has been historically recognized that some form of cost sharing, across the network, is both appropriate and equitable. Unfortunately, this concept has become confused and intertwined with the concept of universal service. Not only has this led to a weakening of cost recovery mechanisms associated with intercarrier compensation, it has placed unnecessary pressure on the size, and thus, the sustainability of the federal universal service fund.

Now is the time to address the confusion that has been created. The concepts of universal service must be separated from the recovery of appropriate intercarrier compensation for the use of high cost networks. Yet, at the same time, these two different functions must be linked together to seek a solution to intercarrier compensation issues and ensure that universal service fund issues are resolved simultaneously.

In this proceeding, the Commission will likely be presented with a series of plans, crafted by a number of well-intended parties. No doubt each will tout the value of the "consensus" represented by their plan. The Companies are aware that the Commission is interested in developing a consensus to resolve the intercarrier compensation issue. Notwithstanding, the Companies recommend the Commission resist the urge to adopt a piecemeal decision-making process in this proceeding. This issue is too critical to be resolved by devolving this rulemaking into an *a la carte* plan. It is absolutely essential the Commission make sure the plan ultimately adopted is consistent throughout and clearly recognizes the concerns of rural telephone companies that are crucial participants in achieving the goals of Congress concerning the provision of telecommunications services universally at reasonable and affordable rates.

Other parties in this proceeding have done an excellent job of identifying the problems and explaining why the current intercarrier compensation mechanisms are broken and must be fixed. We do not attempt to duplicate these efforts and instead start from the premise that all agree a fix is needed.

## Urgency of the Issue

The telecommunications industry is experiencing a period of unprecedented technological change. It has been said that the changes we are experiencing are at such a fundamental level and of such a magnitude that they compare to the transition from the telegraph to the telephone. Multiple network platforms either currently or will soon compete for the same basic customer. The platforms include: wireless providers, cable TV, electric utility, and wireline telephone companies. All of these network platforms will, in many cases, offer the same services to end-user customers. In the view of the Companies, traditional circuit-switched technology will quickly cede to packet technology as the preferred technology for telecommunications services. While the Companies cannot predict the ultimate solution for the delivery of telecommunications services to customers, without a doubt, the revolutionary nature of these current changes must be recognized.

One place the Companies differ from most other groups offering proposals in this proceeding is in the sense of the urgency of the problem. Other plans envision a lengthy transition to a new "intercarrier compensation" regime. The Companies are concerned that the rapid evolution of technology, evidenced by the emergence of Voice over Internet Protocol ("VoIP") which is available over any broadband-based platform, renders the current intercarrier compensation mechanism obsolete **now**. A replacement mechanism is needed sooner rather than later. As the Intercarrier Compensation Forum ("ICF") observes, the current pricing mechanisms are forcing the largest volume users off the circuit-switched network.[2]

The Companies note the velocity of the current revolution is not occurring because other networks are more effective or better situated to handle voice traffic. Current regulatory pricing schemes have created tremendous intercarrier compensation cost savings for the use of VoIP or Commercial Mobile Radio Service ("CMRS") networks. The erosion of landline toll to CMRS has been occurring for several years and is likely the primary driver of the reduction in minutes experienced by Tier I wireline long distance providers. Yet, as has been expressed in multiple venues, a more formidable competitive technology for the landline network is emerging from the coming-of-age of VoIP. VoIP, using packet technology over broadband connections, has the ability to erode even more minutes off the current circuit-switched network as well as the customer base currently supporting this network.

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[2] *See Ex Parte Brief of the Intercarrier Compensation Forum in Support of the Intercarrier Compensation and Universal Service Reform Plan*, CC Docket No. 01-92, October 5, 2004, note 26. ("Tier I wireline long distance providers have lost twenty-four (24) percent of their expected retail market volume and … wireless, VoIP and other technologies will capture sixty (60) percent of the market by 2008") If this prediction proves correct, the necessity of immediate, urgent reform is readily apparent.

While the mass market entrance of VoIP holds promise, unfortunately not every customer will have access to the packet-switched network.[3] The ubiquitous, circuit-based landline network is still the only network that currently offers telecommunications throughout the country. This network has been built out over a hundred years using low interest government backed loans and internal price averaging mechanisms to offset the cost of serving in sparsely populated rural areas. The traditional telephone network ties together our vast nation and offers an equal benefit to all connected. It is the foundation upon which broadband services to rural areas will be built, offering the promise of providing innovative retail communications services to even the most remote parts of the country. Yet, what has taken a hundred years to construct could be destroyed in a few short years if proper regulatory actions are not taken soon.

The Companies believe the Commission must provide a fair and equitable solution to the intercarrier compensation problem before irreparable harm is done. Broadband connections are already available to many Americans and must be made more available. Yet, it is critical that we maintain our nation's ubiquitous voice network while at the same time encouraging deployment of the broadband network. Delay or piecemeal solutions to thorny problems will pose significant harm to the current voice network.

The plan outlined herein addresses intercarrier compensation now, not later – before irreversible harm occurs to the best telecommunications infrastructure in the world. It is this sense of urgency that sets this plan apart from the others.

[3] The companies recognize the current Administration's plan to have universal broadband access across the nation by 2007. Accomplishing this lofty goal in rural areas will require use of rural telecommunications networks as a launching point to the new frontier of packetized rural telecommunications.

## Reason for this Plan

This proposed plan is built upon the premise that only the current landline, circuit-based network is capable of providing ubiquitous voice service throughout the nation. Thus, in addressing intercarrier compensation, the plan also addresses universal service. If telecommunications service was available in every geographic area of the nation from a multitude of providers, a diminished role of the landline circuit-based network would not be catastrophic for the country. The facts show this is not the case. Hence, one must preserve the circuit-based landline voice network, as it is the only network that reaches all of the most remote, most costly areas to serve within our nation. If this network is neglected, many Americans will be left without even the most basic communications system.

Any viable intercarrier compensation system should allow for the continuation of the existing network, while at the same time, not impeding the development of a more advanced network. This proposed plan meets this objective.

## Foundation Principles

The Companies suggest that any reform of the current intercarrier compensation regime should satisfy the following principles:

1. **The plan must ensure all traffic regardless of jurisdiction or technology platform is treated the same.** Intercarrier compensation rates must be the same for all types or

classifications of traffic. This uniformity is required so as to avoid regulatory arbitrage opportunities. Not only must intercarrier compensation rates be equalized between jurisdictions, but likewise rates for connections between technologies must be equalized. The plan must recognize the rapid transition to the packet-switched network that is already underway. Intercarrier compensation for the existing switched network must be priced so as not to create regulatory arbitrage; otherwise, the decision between using the packet-switched versus the circuit-switched network will be based on artificial pricing signals – this will create a new set of arbitrage issues.

2. **The plan must not isolate high cost areas.** Rural subscribers must have access to the same retail plans available to urban subscribers. Rural subscribers must have access to reasonably comparable end user charges for all forms of telecommunications services: telephone exchange service and telephone exchange access and toll service, as well as broadband, Internet and video services. If rural carriers are forced to assess intercarrier compensation fees at levels above the national average, these costs will of necessity be charged back to the rural subscribers residing in high cost areas. This will result in rural subscribers paying more than their urban counterparts, or even worse, not receiving the service at all. This situation is a reality that currently affects many parts of rural America. Subscribers in many high cost areas are not offered the menu of highly discounted toll plans available to urban subscribers. A restructured intercarrier compensation plan must correct this deficiency and ensure that all retail telecommunication rates and services are available in rural America.

3. **The plan must be implemented quickly.** Current rate disparity, especially the disparity of treatment between the circuit-switched network and the packet-switched network, threatens to destroy the availability of ubiquitous telecommunications service throughout the nation. Minutes are leaving the circuit-switched network. Broadband deployment is growing rapidly. VoIP is positioned to quickly capture large volumes from the traditional network. From major new players such as national cable television providers, to traditional telephone service providers deploying DSL, to new start up ventures using wireless infrastructure, broadband connections are readily available and becoming more so each day. This is significant because almost any subscriber connected to a broadband network can now use VoIP to bypass the traditional public switched network. We should also realize that with the adoption of ENUM standards, phone numbers and IP addresses will be become interchangeable. This will allow for direct competition between the traditional circuit-switched network and the packet-switched network and this competition will occur almost instantaneously upon the adoption of ENUM standards. The pace of regulatory change must accelerate if we have any hope of resolving the current pricing discrepancy between circuit and packet networks. A plan must be adopted that not only addresses today's intercarrier compensation problems, but tomorrow's as well. Current proposals concentrate on solving yesterday's problem of jurisdictional rate differences, but do not address the network of today, let alone that of the future.

4. **The plan should address both universal service and intercarrier compensation jointly and in a comprehensive manner.** The plan should recognize the high cost of serving rural areas as a legitimate cost of doing business in the more sparsely populated areas of the country. The current universal service programs are part of this cost recovery mechanism and are not a government handout. The ubiquitous national network was built upon a foundation that ensured reasonable cost sharing across the entire network, ensuring subscribers in low cost areas paid a reasonable share of the costs for facilities in high cost areas. This is the proper pricing mechanism, based on sound public policy objectives and is appropriate compensation for the use of the high cost portions of the national network. A continued sharing of the cost of providing the high cost network from other carriers benefiting from the high cost network enables telecommunications between all persons and is the best way to ensure universal service is maintained. This sharing would ensure that each individual benefiting from the network pays his/her proper share to support it. In a national network, a low cost urban subscriber cannot solely pay his/her local network cost – cost compensation must be included for the use of the high cost rural network as well. Cost sharing among all network users has been a key part of the intercarrier compensation mechanism in the past and must be retained in any new plan. Compensation under the new plan must be sufficient, predictable and substantial to ensure telecommunications service continues in all of rural America.

5. **The plan must ensure a voluntary pooling process is retained.** This process existed prior to divestiture in the form of a national settlement pool and since divestiture as a national cost pool administered by the National Exchange Carrier Association ("NECA"). Such a national pooling mechanism is critical to the collection and distribution of funding in order to average network costs across all network participants. This pool should be open to all carriers with costs in excess of the national benchmark that are willing to follow common accounting and pooling rules.

## Plan Rationale

The Companies' plan is based on the idea explained by Patrick DeGraba in his 2000 working paper on developing a unified intercarrier compensation proposal.[4] In this document, he proposed that both parties benefit from a call.[5] He rejected the "current calling party pays" concepts as inequitable. The Intercarrier Compensation Forum ("ICF") draws the same conclusion.[6]

This is an important concept -- both parties do benefit from a telecommunications service call. By extension, both parties benefit from the existence of the underlying network required to complete the call. Patrick DeGraba, as does the ICF, uses this rationale to support the premise of

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[4] *See Bill and Keep at the Central Office As the Efficient Interconnection Regime*, Patrick DeGraba, OPP Working Paper Series (Dec. 2000).

[5] *Id.* at para. 4 ("both parties to the call – *i.e.*, the calling party and the called party – generally benefit from a call, and therefore should share the cost of the call").

[6] *Ex Parte Brief of the Intercarrier Compensation Forum in Support of the Intercarrier Compensation and Universal Service Reform Plan*, CC Docket No. 01-92, filed Oct. 5, 2004 at para. 24 ("since a completed call involves parties at both ends, it is incorrect to view the caller as the sole beneficiary of a call").

bill and keep. In a limited theoretical situation where the costs and traffic exchanged are roughly equal among network carriers, the use of bill and keep would be appropriate. However, for much of rural America, neither costs nor traffic volumes are roughly equal among network carriers. Much of rural America is substantially more costly to serve by reason of being more sparsely populated.

In the past, internal pricing mechanisms averaged unequal costs among network carriers. Averaged toll rates were required and intercarrier compensation regimes were based on cost, which was folded into the averaged toll rates. The current environment, however, is moving away from minutes-of-use toll plans, to all-you-can-eat plans where one flat fee covers all usage, both local and toll. Indeed, one of the advantages broadband creates is that voice service becomes almost a *de minimis* service as it utilizes such a small portion of a broadband connection. In this environment, flat rate pricing is emerging. This is a scenario where the end user customer pays a flat fee to call as much as he wants, anywhere he wants.[7] This environment is a wonderful development for the consumer, but it has significant consequences when the DeGraba assumption of roughly equal cost and traffic does not hold.

Bill and keep says each network should collect from its subscriber the cost of the network. This means the flat rate collected from each network's end-user must cover all network cost. The result of putting bill and keep together with flat rate pricing is that rural network subscribers will pay a disproportionately greater amount for an equal benefit, as we have previously noted. For example, consider a rural network subscriber who has a network cost of $80 per month, and an urban customer who has a network cost of $20 per month. A connection between these two subscribers on a call will cause the rural subscriber to pay four times more

[7] Bundles including a large number of minutes are effectively unlimited plans from the customer's perspective because in many instances, all plan minutes are never used.

than the urban subscriber. Yet both, in theory, are receiving the same benefit. A "fair" pricing mechanism would assign both subscribers $50 per month, equalizing their cost since they are receiving equal benefit from the connection.

Equalizing of cost occurs within individual networks through averaged pricing plans. In most cases, national providers offer national pricing plans. Costs are averaged across the network and, regardless of the high cost to serve any one area, each customer pays an "average" price to obtain service. Similarly, in the presence of multiple networks, there is a need to recognize the interrelationship among these networks and average costs across networks in order to obtain an equitable result.

Previous intercarrier compensation mechanisms regimes accomplished this averaging. It is only reasonable that when a low cost subscriber benefits from the use of a high cost network, some of the cost of the higher priced network be borne by the subscriber with the lower cost.

## Plan Concepts

If all parties benefit from a call, if high cost rural networks must be maintained, if a new mechanism must not hinder the development of more advanced network, then bill and keep is not the answer. Bill and keep does not work where cost and traffic volumes are significantly different. The following plan outlines concepts that satisfy the need for reform while at the same time recognizing the necessity to retain cost averaging principles.

1. All carriers offering services to customers that enable the customers to make telecommunications calls as part of their service offering, shall be required to connect to

the public switched network in order to ensure that such service is universally connected to all other subscribers.

2. All carriers offering telecommunications service must obtain a properly assigned number from the North America Numbering Plan ("NANP") administrator for assignment to the subscriber. This number will ensure that traffic can be received from all subscribers connected to the public network.

3. Each carrier shall develop and tariff a connection charge that will be assessed against all carriers interconnected to it. This fee shall not exceed the national average retail fee charged for a standard single line business subscriber. This fee shall compensate the carrier for the use of the basic local calling network, which includes switching cost as well as transport facilities within a local exchange. The fee would be based on a DS-0 level of connection, but could only be ordered in multiples of DS-1s (24 DS-0s).

4. Each carrier must make available at least one point of interconnection within each LATA. For rural carriers, the point of interconnection will be within each of its local exchange areas. The local exchange area is defined as the local exchange area designated by each individual state regulating body for basic local service. Any carrier seeking to terminate traffic into the local exchange area must interconnect, directly or indirectly through another directly connected entity, with the rural carrier at a point of interconnection within the rural carrier's local exchange area. Any rural carrier providing originating telephone exchange access shall route originating traffic to the respective interexchange

carrier (or other entity acting as, or in the capacity of, an interexchange carrier) trunks at the local exchange area point of interconnection.

5. Each carrier owning an access tandem as of December 31, 2004, shall develop an access tandem connection ("ATC") fee that will apply in place of the standard connection fee. The ATC fee shall be priced, based solely on the additional cost of the tandem service, including the cost of purchasing connections on subtending switches as well as transport to subtending offices. The ATC fee shall also be assessed to trunks the tandem owner requires for its own intra-company traffic. The ATC fee will be specific to each tandem, but must be charged equally to all carriers purchasing connections on the tandem switch, including those required by the tandem owner.

6. Minutes-of-use ("MOU") access and reciprocal compensation fees currently assessed for interconnection traffic, both intrastate and interstate, will be eliminated.

7. All carriers will be allowed to increase end-user common line ("EUCL") charge, a.k.a. subscriber line charges ("SLCs"), up to the current federal cap. This revenue is used to offset net revenues lost from the elimination of current access and reciprocal compensation fees not recovered from the assessment of a connection fee. This calculation shall be structured to create a revenue neutral result for carriers eliminating minutes of use intercarrier compensation fees.[8] Any net target revenue not recovered

[8] This calculation is as follows: Establish the target revenue by combining total calendar year 2004 interstate switched access cost assigned to the interstate jurisdiction plus gross 2004 intrastate access revenues plus gross 2004 intercarrier compensation revenues plus (or minus) any net 2004 IntraLATA settlement revenues. This amount will

from net connection revenues will be eligible for recovery from SLC fees up to the authorized cap and thereafter by a high cost connection fund (HCCF) which is a bulk billed access charge fund discussed below and in Appendix A.

8. If a carrier still has a shortfall in revenue after increasing SLCs up to the authorized cap, the carrier may voluntarily participate in the HCCF. The HCCF is considered a bulk billed intercarrier cost recovery fund. It consists of the revenues required due to the elimination of MOU intercarrier compensation fees that are not recovered from the adoption of an averaged connection fee or the increase of SLC charges within the authorized cap. In effect, the HCCF represents the above average network cost required to be recovered from all connected to the network.

9. Rural carriers have previously transferred intercarrier compensation (specifically interstate access) out of the intercarrier compensation mechanism into the federal universal service fund. For these rural carriers, these amounts shall be added into the HCCF and reduced from certain existing federal universal service programs in order to accumulate all intercarrier compensation into a single cost sharing mechanism. Specifically, the funds to be included in the HCCF would be the Local Switching Support ("LSS") mechanism and the Interstate Common Line Support mechanism. ("ICLS") In addition non-rural carrier's Interstate Access Support ("IAS") mechanism should also be eliminated from the federal universal service fund. To the extent these revenues cannot

be reduced by access and reciprocal compensation fees paid. The net targeted revenue will be compared to projected connection revenues less connection expenses.

be recovered through connection fees or increased SLC charges, the non-rural carriers could voluntarily elect to participate in the HCCF.

10. States that have created state universal service funds or other specific stand-alone funding mechanisms to reduce state access charges, may elect to eliminate those funding mechanisms and roll these amounts into the HCCF. This is intended to create equity for those states that previously created state funding mechanisms in order to lower state access fees and, as in step nine (9), ensure all intercarrier compensation funds are recovered from a common funding mechanism.

11. The HCCF will be funded by an assessment on each carrier activating numbers through the NANP administrator. The charge will be assessed monthly to each carrier based on its activated NANP numbers. Each carrier shall be allowed to pass through to each subscriber the assessment based on the NANP numbers that the subscriber has activated.

    The HCCF represents a charge for the ability to access the above average, high cost portion of the public network, in order to either originate or terminate a call on the public network. As such, the fee is a direct assignment of cost, on a nationally averaged basis to all subscribers who connect to the public network. It continues the historically correct position of spreading the cost over the entire network and, thus, allows for the maintenance of universal service to even the highest cost portions of the country.

12. NECA shall administer the HCCF funding mechanism. As the traditional pooling provider, NECA continues to develop cost and revenue projections and would annually

calculate the projected amount of HCCF funding required. Each carrier, utilizing numbers from the NANP would submit its estimated average number utilization to NECA. Each carrier wishing to receive HCCF disbursements would submit its appropriate cost support or average schedule settlement information to NECA for use in developing an annual HCCF charge per NANP number. In effect, the traditional cost separation and pooling mechanism are continued, but funding shifts from an access charge based on MOU to an access charge based on activated NANP numbers.

13. The remaining federal universal service funding mechanisms which assists states in maintaining local rates at affordable levels (high cost loop support and high cost model) and which provide discounts to various parties shall continue to be collected based on a revenue assessment.[9] The Commission should seek legislation to authorize expansion of the funding base of the universal service programs, and should include as broad a base of contributors as possible.[10] The Commission should ensure that funding is assessed on a competitively neutral basis and that all carriers that offer a similar service are required to contribute in a similar manner.

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[9] In addition to these high cost mechanisms, other federally mandated programs, such as the schools and libraries, rural health care programs, and low income support shall remain part of the overall current federal universal service program.

[10] Quite naturally, any broadband universal service program would be established under this federal rubric.

## Plan Benefits

The plan meets each of the principles identified earlier. In many ways, the plan creates a relatively simple solution that resolves a host of extremely complicated, interrelated problems. A simplified explanation of the plan is that existing dedicated pricing rules are extended to the switched network through the creation of a connection fee. In order to allow for a uniform national connection fee, cost above the average is collected first through increases in the SLC fee up to the cap and any cost in excess is captured through an assessment on the means of connections to the public switched network, the assignment of a NANP number. The access charge is placed on the number, which allows access to the public network. The application of a connection fee to a connecting network mirrors the way fees are currently assessed to Internet service providers, who, in effect, pay a B-1 or similar rate for connection to the network. In addition, if a user, through an Internet connection, places a VoIP call, they would be required to obtain a NANP number and would be assessed the HCCF fee. This would create symmetry between the packet and circuit network, as both would pay the same fees for connection to the public network.

By ensuring an averaged connection fee and spreading any excess cost over the entire national number base, the second goal is met since with averaged wholesale pricing rural high cost areas should enjoy the same retail plans enjoyed in urban America. The high cost stigma of serving rural America would be eliminated.

The plan could be implemented quickly. By moving to a dedicated pricing plan, the Commission avoids the thorny issue of state preemption of intrastate access pricing. Existing long standing rules allow for the Commission to set pricing on special access facilities that are not measured and carry more than 10% interstate traffic, meeting the third goal.

Finally, the plan addresses universal service and intercarrier compensation in a uniform, comprehensive manner. It properly separates funding that should be met through internal network pricing mechanisms from the broader set of services funded through the universal service fund. This better targets funding and allows for funding to be collected from the proper parties.

The plan offers many additional benefits. It eliminates the cumbersome and costly carrier access billing mechanism currently in place. Minutes are no longer required to be recorded, manipulated, billed or collected. The administrative cost savings to the industry and ultimately to the public should be significant.

By immediately converting to a single intercarrier compensation billing mechanism as opposed to phasing in a new system, the cost to maintain separate billing mechanisms are eliminated. The plan would allow for the continuation of existing cost separation rules, the continuation of pooling and rate of return mechanisms and allows for equitable treatment of states who previously acted to address state access rate issues. In short, the plan offers a single comprehensive solution to a myriad of complicated problems.

## Conclusion

The Companies urge the Commission to seek out additional input on these concepts, to allow other parties to add their insight and offer additional details and depth to these concepts. This issue is of such importance, but also of such complexity, that all input must be considered and all concepts explored in order to ensure that America's public phone network, the greatest network the world has seen, is not only preserved, but advanced. It is in this spirit we offer these comments to the Commission

If you have any questions or need further information regarding these materials, please contact us at your convenience.

Respectfully submitted,

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November 2, 2004

# Appendix A

## Calculating the High Cost Connection Fund

In assessing the viability of the proposal contained herein, it will, of course, be necessary to address the level of funding required for the high cost connection fund ("HCCF") and the resulting assessment for each phone number assigned from the North American Numbering Plan ("NANP") administrator. It is anticipated that, regardless of the plan, the Commission will require a detailed review of financial impacts. The Companies urge the Commission to ensure that any data requests the Commission may issue or any data review the Commission may conduct, contain sufficient information to completely and accurately define the financial impact of this proposal.

Notwithstanding these detailed reviews, it is possible to develop an approximation of the HCCF mechanism. Using generally available data or estimates based on previous filings and making certain assumptions, we can estimate the size of the HCCF as follows:

The HCCF will consist of current net state and federal access charges as well as current net intercarrier compensation revenues. In addition, the plan calls for the transfer of access related funding contained in the federal universal service fund to be combined into the HCCF. This would include both Local Switching Support ("LSS") as well as Interstate Common Line Support ("ICLS") for rural carriers and Interstate Access Support ("IAS") for non-rural carriers. These amounts would be offset by the creation of a new connection fee based on the number of DS-0 connections into the carrier's network and an increase in subscriber line charge ("SLC") up to the authorized cap.

Since most rural carriers are already at the SLC cap, only the larger non-rural carriers will likely be in a position to increase SLC charges. Since these larger carriers, in general, have a lower percentage of their total revenue associated with net intercarrier compensation revenues, this plan assumes that, at a minimum, the larger carriers will be able to offset existing net intercarrier compensation revenues with the new connection fee and increases in their SLC up to the cap.

Rural carriers should be able to offset some portion of their existing intercarrier compensation revenues with the new connection charges. However, since this amount cannot be estimated, this plan assumes a conservative-case scenario by placing all existing intercarrier compensation into the HCCF. In addition, the plan assumes all existing access-related federal USF programs (LSS, ICLS, and IAS) will be combined into the HCCF.

These assumptions yield the following estimates for the funds needed through the HCCF.

| | Millions |
|---|---|
| Rural Carriers Intrastate Access Revenues | $1,500 |
| Rural Carriers Interstate Access Revenues | 500 |
| Rural Carriers LSS | 500 |
| Rural Carriers ICLS | 1,100 |
| Non Rural Carriers IAS | 650 |
| Total Estimated HCCF | $4,250 |

The above calculations yield an estimated HCCF of $4.25 billion. Using the concept of a charge per NANP number, collection of the HCCF yields a reasonable assessment per number. We estimate roughly 350 million active numbers are assigned (160 million local wireline numbers, 160 million wireless numbers and 30 million toll free, 900, paging, direct inward dialed and other numbers). Based on 350 million numbers, a fee of only $1.00 per number per month returns annual revenues of $4.2 billion per year.

Thus, for an estimated fee of approximately $1.00 per NANP number, this plan could be implemented. In addition, the plan would eliminate over $2.25 billion from the existing federal universal service fund, lowering that assessment by over 33% (the remaining programs retain funding on the current revenue basis). We believe the estimated calculations make this plan well worth considering.